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UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT

EDITORIAL

One of the more striking conclusions of this year's *Trade and Development Report* is that some developing countries, particularly those of Sub-Saharan Africa (SSA), remain largely outside the scope of global growth dynamics. The gap between the average growth rate of SSA and that of all developing countries has widened in the 1990s and per capita incomes in the region are still below the 1970 level. The *Report* estimates that on current growth rates it would take 70 years to double per capita income in SSA.

These trends are all the more alarming because nowhere else have structural adjustment programmes (SAPs) been applied more intensely and frequently than in SSA since the early 1980s. During this period, no fewer than 35 countries engaged in 162 high-conditionality, policy-based programmes, against 126 for the rest of the world. And only one country, moreover, ended its programme as a result of success in improving its economic conditions.

The high frequency and persistence of SAPs in SSA thus suggest that these countries are locked into adjustment policies, unable to restore self-sustained growth. This situation does not tally with the expectations of SAPs. Structural adjustment was meant to be a finite process in which appropriate policies would, with the help of external aid flows, permit countries to resume growth and to tackle long-term development problems. The fact that such a graduation from adjustment is not general after so many years of effort puts in question the effectiveness of SAPs.

The *Report's* comprehensive analysis of SAPs leads to two conclusions. First, there is a need for increased external funding for SAPs in order both to offset the heavy terms of trade losses – caused largely by SSA's high dependence on exports of commodities and by the decline in commodity prices – and to increase import and investment capacities. In this context, debt reduction can make a key contribution.

Second, the design of SAPs needs to be improved. They have relied too much on devaluation, trade liberalization and demand restraint. These cannot make up for missing reforms. Devaluations, for example, have improved incentives not for manufactured exports but for traditional ones and have therefore failed to promote industrialization and diversification. More attention should therefore be given to public investment, tax reform, reform of public enterprises, export promotion and capacity building in the public administration. Improved strategies for agricultural commodities are also needed, as well as coordination of SAPs across countries to avoid overproduction and, thus, lower export prices.

The *Report* acknowledges that the process of adjustment and development in SSA is both complex and slow and advocates a pragmatic approach. For this purpose, the debate on how to adapt adjustment programmes to the realities of the region must be open and transparent. While external development agencies and donor countries have an important role to play in this regard, African governments must participate more actively in the design of SAPs and strengthen their commitment to, and ownership of, these programmes if the marginalization of Africa is to be halted.

The United Nations Conference on Trade and Development (UNCTAD) was set up by the General Assembly in 1964 as one of its permanent organs, mandated to promote international trade, particularly that of developing countries, with a view to accelerating their economic development. UNCTAD has evolved into a universal forum with a development perspective, in which member States review the interdependence of economies and of issues in trade, money and finance. UNCTAD is composed of 187 member States, including the 184 members of the United Nations; many intergovernmental and non-governmental organizations have observer status. The Conference normally meets every four years at ministerial level to establish policy guidelines. Between sessions, work is carried out by the Trade and Development Board and its standing committees, working groups and other subsidiary bodies. The problems of the least developed countries and of Africa's economic recovery receive special attention in UNCTAD's work. The UNCTAD staff-part of the United Nations Secretariat-numbers about 400 and is headed by a Secretary-General, currently Mr. Kenneth K. S. Dadzie (Ghana).

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Michael C. Bonello, Editor

CALLS FOR A CAPITAL LEVY, PRIVATIZATION AND A FISCAL STIMULUS TO FIGHT DEFICITS, DEBT AND UNEMPLOYMENT

Belying the projections of almost all international economic organizations, the North has failed to recover. Unemployment has become the overriding problem while government debt has escalated. As a result, governments find themselves on the horns of a dilemma: an expansionary fiscal stance will reduce unemployment but raise government deficits and debt even further, whereas fiscal consolidation will lengthen the dole queues; and inaction will throw more people out of work as well as increase government borrowing to pay them. The most promising way to deal simultaneously with deficits, debt and deflation, according to UNCTAD's *Trade and Development Report, 1993**, just published, is a one-time capital levy combined with privatization to reduce debt, alongside one-off spending increases to sustain private incomes.

The Recession Continues

Reviewing the performance of the world economy in 1992, the *Report* notes that the OECD area – which accounts for over 54 per cent of world production – grew by a mere 1.4 per cent and is expected to grow by only 0,8 per cent in 1993. The modest recovery in the United States compensated for the deceleration of economic activity in Europe and Japan, but it was not accompanied by any substantial gain in employment.

The *Report* maintains that the recessionary trend has prevailed because it is triple-strength: in the United States and elsewhere, financially over-extended firms and households have been cutting back their spending, and banks their lending, in order to restore their balance sheets to health; meanwhile, Japan's monetary contraction succeeded all too well in bursting the bubble of inflated asset prices; and in Western Europe, the Bundesbank's policy of taming the German unification boom with monetary policy has contributed to keeping interest rates at very high levels.

Prospects Remain Poor

In spite of the persistence of recession, however, most governments are still reluctant to pursue counter-cyclical fiscal policies. The *Report* suggests that this wariness stems in part from a fear that demand management will be inflationary, but is also a reflection of the escalation of government debt relative to national income. Instead, the leading industrialized countries – as well as the main international institutions – are seeking solutions to the legacies of the 1980s in the motto of that decade: "Leave it to the markets!" While there is much to be said in favour of flexible labour markets, the *Report* affirms, both cyclical and structural unemployment require a reorientation of macroeconomic policies: unemployment will persist as long as demand is insufficient to induce firms to hire more workers.

Many countries appear to be banking on export growth to lower unemployment, but recovery in one country is not likely to go far in the absence of a corresponding recovery in others; and trying to capture a larger share of the world market is a zero-sum game. It is more likely to induce beggar-my-neighbour import protection or export subsidization. In this regard, the *Report* explains that while every country can increase productivity, all cannot increase competitiveness.

TRADE AND DEVELOPMENT REPORT 1993

Part One – Global Trends

- *The World Economy: Performance and Prospects*
- *International Trade and Commodity Markets*
- *International Capital Markets*

Part Two – Growth Dynamics: The Differing Patterns

- *Deficits and Deflation in Industrialized Countries*
- *Adjustment and Stagnation in Sub-Saharan Africa*
- *Recovery and Uncertainty in Latin America*
- *Growth and Integration in the Industrializing East*
- *Collapse and Transition in Central and Eastern Europe*

Part Three – Debt

- *The Debt Crisis Is Not Over*
- *The Paris Club: A Group of Debt Collectors or a Development-Oriented Institution?*
- *The Multilateral Debt Problem*
- *Commercial Bank Debt: An Assessment of the Brady Deals*
- *The Russian Federation: Debt Burden and Export Capacity*

* *Trade and Development Report, 1993* is a United Nations publication (Sales No.E.93.II.D.10), price US$45.

and if they all try to do so rather than to increase global demand collectively, the result will be more recession and unemployment all round.

Current Policies Go the Wrong Way

Evaluating policy stances in the leading economies, the *Report* judges Japan's expansionary fiscal packages to be a step in the right direction which will stimulate domestic demand; they will not, however, be enough to counteract the full force of global deflation, because most other industrialized countries are doing just the opposite of what is needed. As for the fiscal package proposed by the new United States Administration, this has been shorn of the planned short-term stimulus to demand, leaving only the longer-term adjustment of the deficit. This is not enough because, as the *Report* points out, both the debt-to-income ratio and unemployment will only come down if income growth speeds up considerably. In Western Europe, meanwhile, most countries attach overriding priority to strengthening government finances. However, the *Report* observes, because of the cumulative impact of high interest rates and recession, a serious attempt to meet the debt and deficit targets agreed at Maastricht for proceeding to monetary union would imply co-ordinated fiscal contraction and would drag Western Europe into depression.

The fiscal rules of the Maastricht Treaty are inherently deflationary because they require countries with excessive debts to cut back without obliging others to expand, and without making it mandatory to adopt a more expansive monetary policy. Lower investment and productivity growth coupled with reduced effective demand would have a serious effect on output and employment. In any case, meeting the Maastricht targets for deficits and debt by 1997 will be very difficult for many countries and impossible for some. Many countries have to generate fiscal surpluses, ranging from 5 per cent to 20 per cent of GDP, year in year out in order to attain the debt target. An important impediment to fiscal convergence is that European interest rates are too high, so that even Germany, France and the United Kingdom, which met the debt target in 1992, would have to cut budget deficits in order to remain below the 60 per cent target for the public debt to GDP ratio.

The Case for Global Reflation

Arguing that the situation demands a bold and innovative response, the *Report* proposes that OECD countries apply a fiscal stimulus in concert to reflate the global economy and counter global deflation. It argues that while in an individual economy, especially a very open one, even a moderately expansionary fiscal stance can worsen the budget deficit considerably as the stimulus and the accompanying benefits to public finances leak to its trading partners, when countries apply fiscal stimulus in concert, the deterioration in government finance in each of them can be kept quite small.

Governments need more room to raise demand by increasing their own expenditures on goods

DEBT CRISIS LINGERS ON

Over 60 countries – mainly low-income countries in Sub-Saharan Africa but also many in the middle-income category – are in arrears with their foreign creditors and remain involved in debt rescheduling. The debt crisis, therefore, persists though its character has changed. While the international financial system is no longer in danger, the key problems now are debts owed to governments and to international financial institutions. A summary of the Report's proposals follows.

Official Bilateral Debt

- *All creditor governments should consider applying the "Trinidad" terms, or comparable measures, to reduce the stock of debt by at least two thirds.*
- *Eligibility for Paris Club terms should be widened to include all heavily indebted countries that are IDA recipients.*
- *Debt reduction should be granted all at once.*
- *Bring the Paris Club and donor groups together in a single forum to deal with debt and finance.*
- *A more comprehensive medium-term debt relief programme for Russia is needed.*

Multilateral Debt

- *The scope and scale of current schemes for handling arrears should be enlarged and effective, though informal debt reduction should be given when warranted.*
- *The soft windows of the multilateral institutions should be adequately replenished, including via SDR allocations and IMF gold sales.*

Commercial Bank Debt

- *Smaller countries negotiating Brady deals need lower up-front financing costs and larger debt reductions.*
- *Governments should exert greater moral suasion on banks to agree to debt reduction. Improved regulatory and tax provisions would also help.*
- *For low-income countries, the IDA's Debt Reduction Facility needs to be expanded, endowed with higher lending limits and access to its resources widened.*

and on services. Accordingly, they need to reduce their interest bills by tackling the stock of existing debt. Since, however, the traditional way of reducing deficits – by cutting spending or raising taxes – would be deflationary, governments should rather levy a one-time tax on private sector financial assets. This would not be deflationary and would generate enough revenue to permit some public debt to be redeemed and to create economic activity.

The *Report* acknowledges that there are practical difficulties in taxing private wealth. But these can be overcome if there is a turnaround of thinking centred on a simple fact: since the main source of government deficits is the interest payable to the private sector, in the final analysis the private sector must pay most of that bill itself. The *Report* also considers privatization as a way of reducing government debt but sees limited scope for action in many countries.

Even if that were done, the *Report* concludes, monetary relaxation would also be necessary, not least in order to reduce the interest bill of the public sector. The scope for easing monetary policy is substantial in Western Europe while in the United States the main need is to avoid putting on the monetary brakes too soon in the recovery process.

CHINA'S GRADUAL REFORM PROCESS

The success of China's gradual approach to economic reform shows it is possible to harness the complementarities between central planning and the market, and between State-owned enterprises and the market-oriented small-scale sector. The reform started with the introduction of market mechanisms in agriculture and the liberalization of foreign trade and investment, and was then extended gradually to other sectors. Productivity increased sharply and exports shot up, in part driven by inflows of foreign direct investment. In industry, China improvised new organizational forms such as town and village enterprises, which behave according to the rules of the market but do not involve a sharp break with public ownership. Price controls were reduced gradually and integration in the world economy has been rapid but selective. This approach has spared China the traumatic experience which stabilization programmes have produced in some other transition economies. The lessening of central control over finance and investment, however, has led to overheating. The Report concludes that expenditure will therefore need to be curtailed, and the sooner that is done, the less painful it will be.

TRANSIT SYSTEMS AND THE INTERNATIONAL TRANSPORT COSTS FACING LAND-LOCKED DEVELOPING COUNTRIES

*Charles Gore**

Governmental experts from land-locked and transit developing countries and representatives of donor countries and financial and development institutions meeting in New York last May identified a number of measures that need to be taken to improve transit systems in land-locked and transit developing countries.[1]

The broad objective of these measures is to make more effective the right of access to the sea of land-locked developing countries, while respecting the sovereign right of transit countries to ensure that transit operations do not infringe their legitimate interests.

Implementing the recommendations agreed by the experts is the next complex but important step. It is important in each continent. In Africa there are now fifteen land-locked developing countries, including Ethiopia, and are almost all very poor. The particular needs which arise from their geographical situation are a neglected aspect of the general diagnosis of the economic crisis in Sub-Saharan Africa. National policies of recovery can effectively be thwarted by transit problems, as the adjustment programmes in Malawi show. But transit cooperation is very difficult as many transit countries are themselves facing an economic crisis. In Asia, there are twelve land-locked developing countries, including four in the least developed category and seven newly-independent States created by the break-up of the USSR. The latter, some of which are resource-rich, are seeking to enter world markets and need to establish new transit systems. In Latin America, renewed impetus to regional cooperation is a hopeful sign but both Bolivia and Paraguay, the two land-locked countries in the region, are still very poor.

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* *The author was with the Least Developed, Land-locked and Island Developing Countries Division of UNCTAD from June 1992 to July 1993.*

[1] *The tripartite New York consensus on a common agenda to address transit problems is widely regarded as a breakthrough after many years of efforts by UNCTAD to promote transit cooperation that also has the full support of the donor community.*

The implementation of the New York measures will require a political commitment to negotiate practical solutions in specific areas such as multi-country customs bonds, carriers' liability and road maintenance regimes, as well as informed analytical support.[1]

This article focuses on one of the key problems facing land-locked countries, namely the international transport costs which exporters and importers have to bear.[2]

High Import Costs

International transport costs facing land-locked countries vary according to the nature, magnitude, and frequency of consignments; their origin and destination; the time of shipment; the shipper; and the freight forwarder. Global estimates of import costs derived from IMF balance-of-payments statistics suggest that in 1990 freight costs were approximately 4.4 per cent of the c.i.f. import values in developed market economies as a group and 8.8 per cent in developing countries. For land-locked developing countries, however, the proportion was approximately 22 per cent in West Africa, 16.5 per cent in East Africa and 14 per cent in Latin America.

Disaggregated statistics collected in land-locked countries in Africa during UNCTAD transit project work and by the World Bank show that for typical low-value and high-value imports (say, fertilisers and spare sparts, respectively) the ocean freight component is usually less than 50 per cent of total transport costs, and is often as low as one-third. The critical factor inflating international transport costs for imports into land-locked developing countries is thus the need to convey goods overland to their destination through one or more transit countries.

Transit operations give rise to new administrative, documentation and customs costs. Transit systems moreover are often subject to a number of weaknesses which further inflate costs and reduce the quality of services. These include:

- an incomplete and inadequately implemented regulatory framework
- a poorly maintained physical infrastructure
- a shortage of transport equipment and services
- low managerial capabilities of providers of transit services
- weak competition among providers of such services
- cumbersome and non-harmonized customs and transit procedures
- intermittent disruptions along transit corridors
- informal payments systems which artificially inflate transit costs

The underdevelopment and inefficiency of transit services discourage international traffic while low cargo volumes in turn inhibit the development of such services. The cost of services also reflects the distance of land-locked destinations from the sea: this varies between 200 and 2750 miles. Also important, however, are discriminatory pricing practices. These may arise because agents in transit corridors are able to exploit their monopolistic position, or because land-locked countries adopt measures to minimize the foreign exchange losses associated with transit operations; and also as a result of logistical distortions caused by weak integration of international transit systems.

Exports Relatively Less Affected

Transit costs for exports are sometimes lower than for imports because the freight rate for imports can include the costs of an expected empty return-journey, while for exports it may be possible to negotiate discounts on the back-haul leg of a journey. Disaggregated data from a variety of sources nevertheless show that for a range of commodities the transportation costs from a central point of loading within land-locked countries to f.o.b at the seaport for shipping overseas constitute up to 32 per cent of the f.o.b. value (taxes excluded) and up to 47 per cent of the "ex-works" value at the point of loading. Transit costs are proportionately greatest for low value bulky commodities, such as sugar and soya beans. For some high value commodities, however, transit costs can be less than 10 per cent of the "ex-works" value.

The comparative transport cost disadvantage of land-locked countries relative to their coastal neighbours can be expected to be less for exports than for imports. Importers in coastal countries can gravitate towards coastal locations and thus avoid significant inland transport costs, whereas centres of production for mineral and agricultural exports in coastal countries are sometimes inland. This means that in some coastal countries, particularly those with weak logistics management skills, transport costs to the seaport are as high as those of land-locked countries.

Unpredictability of transit times, however, can be a major disadvantage facing exporters in land-

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[1] *The recommendations of the New York meeting were fully supported and endorsed by UNCTAD's Trade and Development Board and transmitted to the General Assembly.*

[2] *For a fuller discussion see "Transit systems for land-locked developing countries: current situation and proposals for future action" (TD/B/LDC/AC.1/2), "International transport costs facing land-locked developing countries" (UNCTAD/LDC/Misc.10) and "Report of the meeting of governmental experts of land-locked and transit developing countries and representatives of donor countries and financial and development institutions" (TD/B/LDC/AC.1/4).*

locked countries. For coffee and cotton exports, for example, it may be impossible to specify in the contract "prompt shipment", or even shipment in a given month, and prices may be discounted if the contract specifies a longer shipment period. Just-in-time delivery is now important for many agricultural commodities as well as manufactures. Unpredictable delays, which increase with distance from the sea, poor communications, institutional and procedural complexity and logistical distortions considerably reduce competitiveness.

Some Implications

International transport costs act as a barrier to trade which is analogous in its effects to export taxes and import duties. Viewed in this light, the international transport costs of land-locked developing countries resemble an inward-oriented trade regime which is biased against production for export. It is not surprising to find, therefore, that in 1991 only two land-locked developing countries, Botswana and Swaziland, exceeded the average per capita value of exports achieved by all developing countries, US$ 271. In that year, twelve of the land-locked developing countries had exports per capita of less than US$50, and in ten of these countries exports were less than 10 per cent of GDP.

Although it is still a matter of debate, an inward-oriented trade regime has been associated with low rates of national growth, and major policy reforms have thus been put in place to bring about a transition to an outward-oriented trade regime which does not discriminate between production for the domestic market and

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NEW BOARD PRESIDENT

The permanent representative of Jordan to the United Nations Office at Geneva, Ambassador Fawaz Sharaf, is the new President of UNCTAD's Trade and Development Board. He was elected by the Board at the first part of its fortieth session on 20 September. After graduating from the American University of Beirut Mr. Sharaf joined the Foreign Office in 1961 and became a member of Jordan's Permanent Mission to the United Nations in New York a year later. He subsequently served for many years as Director-General of the Jordan Youth Organization and in 1976 was appointed Jordan's first Minister of Culture and Youth. In that capacity he initiated an intensive programme to develop art and cultural activities. Upon resumption of his diplomatic carrier, he served as Ambassador to the United States from 1980 to 1982 and to Germany, Sweden, Norway and Denmark from 1982 to 1989, before taking up his current post in Geneva. Over the years, Mr. Sharaf has also represented Jordan at a number of United Nations, UNESCO and Arab League Conferences.

The Trade and Development Board, composed of 137 member States, is UNCTAD's executive body. Its main purpose is to carry out the functions of the Conference when that body is not in session. The Board holds one regular session a year in two parts, the first in September/October and the second in March/April of the following year. The first part reviews interdependence and related matters, including the external debt problems of developing countries, while the second focuses on international trade issues. A number of subsidiary intergovernmental bodies report to the Board. The Board itself reports to the General Assembly of the United Nations.

Fawaz Sharaf

Before the end of each regular session, the Board identifies the person to be nominated for election as President at the next session. In this way, the President-designate is able to participate in an advisory capacity in the preparatory work for the session. In line with this procedure, Mr. Sharaf was designated by the Board as its next President during the second part of its thirty-ninth session last March. The office of President of the Trade and Development Board is subject to geographical rotation among member States and tenure is for one year.

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exports, nor between purchases of domestic goods and foreign goods. These efforts are now being extended to the field of international transport, as some countries take measures to upgrade port services and promote competition in international shipping. Land-locked countries are in a peculiar position, however, because an important component of their international transport costs is incurred during transit operations between their borders and the sea. These costs can only be modified to a limited extent by their own domestic policies. In the main, transit costs are cooperation-dependent. That is to say, subregional and regional cooperation measures of various kinds are the major way in which these costs can be influenced.

Firms within land-locked countries have an important role to play in devising logistical solutions and creating innovative transit operations within the framework of the transit infrastructure and procedures established and monitored by cooperating governments. The pattern of the incidence of international transport costs is important in this regard. Given the small size of markets within land-locked developing countries, for example, it is often possible for importers to pass on international transport costs to consumers and other buyers. For some exporters, such as tobacco buyers purchasing the commodity from peasant producers or a parastatal marketing board, costs can also be passed on. In such cases, the incentives to reduce transit costs through creative logistics are lower. Firms are nevertheless still very concerned with the predictability of transit costs, which affect their ability to enter contracts with clear expectations; and with the length of transit times, which affect their financial requirements in terms of working capital tied up in stocks.

In these circumstances, the measures that are likely to be most effective in reducing transport costs and improving the quality of services in transit systems are, first, the establishment of a stable transit framework mutually-agreed between land-locked and transit countries, which reduces or eliminates bottlenecks, avoidable costs and logistical distortions associated with weak cooperation; and second, the stimulation of greater competition in the international inland transport sector and in the freight forwarding sector, the improvement of service capabilities in these sectors, and the promotion of more transparency in inland transport markets. The respective roles of governments and markets in efforts to reduce transit costs need careful consideration in view of the existence of imperfect competition due to "natural protection", inevitable international external effects associated with transit operations, and a lack of transparency in transport markets.

TRADE AND ENVIRONMENT ISSUES AND INTERNATIONAL COOPERATION

- Does trade liberalization harm the environment?
- How would internalization of environmental costs affect trade?
- Do environmental measures affect competitiveness?
- What is the impact of environmental standards on trade?
- When might trade measures be legitimate for environmental purposes?

These are some of the important questions to which this article attempts to give some preliminary answers.[1] It starts from the basis that all countries have a common but differentiated responsibility for the main environmental problems. Therefore transborder, regional or global environmental concerns are most effectively addressed through international cooperation, which takes into account the interests and responsibilities of all countries concerned. It argues that such cooperation needs to aim at achieving a better integration of environmental and trade policy-making at the national and international levels, to prevent policies in one area from having unintended effects on the other area; and that international cooperation is also required to increase coherence between environmental measures and policies implemented by individual countries, and to prevent such policies from adversely affecting the economic growth and development prospects of developing countries.

Trade Liberalization

A particularly contested issue concerns the claim that trade liberalization is bound to harm the global environment, and that therefore not only should such liberalization (as in the Uruguay Round) be abandoned, but even that trade restrictions should be applied so as to offset the supposed harmful environmental effects.

There are several counter arguments to this view. One such is that trade liberalization and

[1] *Based on "Trends in the field of trade and environment in the framework of international cooperation" (TD/B/40(1)/6), a report prepared for UNCTAD's Trade and Development Board.*

open economic policies encourage a more efficient allocation of resources by allowing goods and services (including technology) to flow freely across borders in response to market-driven incentives and by stimulating investment in competitive and state-of-the-art production methods. By removing trade policy distortions that cause environmental degradation, moreover, liberalization can also provide environmental benefits; this is likely to be particularly true for the agricultural sector.

Trade liberalization would also provide developing countries with the increased access to industrial country markets which they require if they are to reconcile rapid export growth with the conservation of their resource base. And while such liberalization may contribute to increased pressure on the natural resource base if such resources are underpriced, this implies not that trade should not be liberalized, but rather that natural resources should be adequately priced.

Finally, trade restrictions are normally not the best instruments for achieving environmental objectives: one of the important insights of economic theory is that in order to promote the efficient allocation of resources, including environmental resources, market and policy distortions should be corrected at their source.

Internalization

Environmental costs of production are not equal in all countries, because there are differences in natural-resource endowments, in physical assimilative capacities[2] and in social preferences. Furthermore, goods differ in their relative use of environmental services and in their waste profiles. Thus, if environmental costs are fully internalized, differences in environmental endowments and demand for environmental products will be a determinant of comparative advantage and thereby influence trade, just as do differences in conventional factor endowments such as labour and capital.

It is important, therefore, that the prices of products entering international trade should adequately reflect these differing environmental costs. However, the very existence of these differences has given rise to disagreement about their trade implications. In this context, it should be noted that if prices reflect the full social cost of environmental protection and resource depletion, trade will contribute to growth which is sustainable. However, the ability of developing countries to internalize environmental costs will be strongly influenced by the conditions under which they are able to export their products.

Thus, if the demand for the natural-resource-based exports of developing countries is price inelastic, internalization would lead consumers in the industrialized world to pay a larger share of the environmental costs associated with their consumption patterns. There is, however, little practical experience in the identification and measurement of the relevant costs and resource values to be internalized and in the feasibility and practicability of different policy measures to achieve internalization. Much conceptual and empirical work remains to be done in this area.[3]

Competitiveness

The alleged effect of differing environmental costs on competitiveness is often raised as a factor by those wishing to justify trade sanctions on environmental grounds. Some observers argue, for example, that industries which internalize resource and environmental costs to a greater degree than similar industries elsewhere suffer a competitive disadvantage, and thus that a country favouring strong environmental protection suffers a trade loss, whereas a country with lax environmental standards enjoys a trade gain.

It has thus been proposed by NGOs that GATT rules be reinterpreted or amended to allow Contracting Parties to discriminate between "like products" that vary in the degree to which the environmental and resource costs of production are incorporated in their prices. It would then be possible to protect domestic industries that internalize more of their costs than foreign competitors through "environmental countervailing duties" such as import tariffs or subsidies.

However, as early as 1972, the OECD agreed that "differences in environmental policies should not lead to compensating import levies or export rebates (border adjustments) or measures having an equivalent effect, designed to affect the consequences of these differences in prices".[4]

Moreover, the Rio Declaration as well as the Polluter Pays Principle recognize that differences in standards are justified by a large variety of factors. Finally, if remedial actions were judged necessary to address short-term difficulties arising from differences in environmental standards, the existing safeguard provisions of GATT could in any case be invoked, so that environmental countervail would not be needed.

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[2] *Defined as the ability of the environment to absorb wastes and to render them harmless, as well as to regenerate renewable natural resources.*

[3] *UNCTAD has established a programme of work in this area. See "Natural resources management and sustainable development. A programme for implementation by UNCTAD", Geneva, May 1993.*

[4] *"Guiding Principles Concerning the International Economic Aspects of Environmental Policies", OECD, 1972.*

Environmental Standards and Trade

Although most economists recommend that environmental policies should focus on market-oriented instruments such as ecotaxes and marketable permits, in practice most countries have so far relied heavily on regulation and standard-setting to achieve their environmental objectives. Such regulation can affect trade both directly and indirectly. Thus, standards aimed at products may directly impact on trade through, for example, such factors as the costs of compliance with product regulations and consumer preferences for green products; whereas standards aimed at production processes may indirectly affect trade through their impact on industrial competitiveness and location decisions.

With regard to these two types of measures, the distinction between process and product standards is important. This is primarily because their trade effects and treatment in GATT are different. In particular, under current international trade rules, it is not permissible to apply trade measures to enforce process regulations.

Given progress in the control of emissions and waste generation at the process level, environmental policies in some industrialized countries (particularly Germany, the Netherlands and the Nordic countries) are increasingly putting emphasis on product policies; in other countries (including the U.S.) focus continues to be placed on process regulations.

As regards product standards, it appears that national regulations implying higher standards may favour domestically-produced over imported products if foreign producers have to incur higher costs in order to comply with the same regulations. Domestic producers, moreover, can more easily influence the development and implementation of standards than can foreign producers; and standards which lack transparency or which are not based on reasonable scientific evidence may constitute obstacles to trade.

Another aspect of product standards is that where regulations differ across markets, producers may have to incur additional costs to obtain information and to adapt their products to the different requirements of each market, thus affecting trade.

Environmental performance standards, on the other hand, may lead to the substitution of chemical by natural products as well as the development of other products and substances that are environmentally preferable. This may result in some trade advantages for developing countries.

As for process standards, these may have an impact on industrial location decisions, owing to the "push effect" leading to an exodus of polluting industries as a result of the increased cost of more stringent environmental regulations and the "pull effect" of lower costs due to less stringent policies (the "pollution haven" hypothesis).

However, empirical studies – so far referring only to industrialized countries – indicate that the cost effects of environmental process standards are on average relatively small. Unfortunately, most of these studies fail to include either micro-impacts or the impact of environmentally motivated regulations on the sustainable use of natural resources.

On the other hand, properly-designed environmental process standards may induce innovation resulting in cost savings which may offset at least part of the cost of compliance.

Empirical studies also show little evidence that "dirty" industries have migrated because of differences in environmental process regulations and standards across countries.

Countries tempted by the potential employment gains to host migrant industries should nevertheless consider the disadvantages:

- industry migration will impose social costs in terms of health and safety risks for the workers as well as for those who live around the factory
- products made by "dirty" industries may find it difficult to access the markets of countries with high environmental standards, particularly the OECD countries
- "dirty industries" which migrate are typically stagnant or declining

As regards product standards, a balance should be struck between the advantages of harmonization, from a trade and transparency point of view, and the advantages, from the point of view of sustainable development, of allowing for differences in national standards. The harmonization of process standards, however, would not be required where the processes in question had no transborder or global environmental effects.

A further regulatory approach which is gaining increasing acceptance among environmental policy-makers is the issuance of "eco-labels". Eco-labelling is a "soft" instrument in the sense that an eco-label is a positive identification adopted on a voluntary basis, establishing no generally binding requirements or bans. Experience with this approach suggests a number of observations.

First, eco-labelling programmes tend to be based on processes and production methods (PPMs), and the use of raw materials, which are predominant in the importing country. They may thus in practice discriminate against imported products even though such products may have used environmentally-sound PPMs and environmentally-friendly raw materials.

Second, given the differences across countries

in environmental, legal and regulatory regimes, certain labelling authorities (e.g. in Canada) are reviewing the implications of requiring processes and production methods to meet only the environmental standards of the producing countries.

Third, in some cases the selection of criteria and threshold levels may be so narrow that in practice a particular technology or a particular production process may be required.

Fourth, the "cradle to grave" approach used in the award of eco-labels may impact on international trade, depending on how the criteria handle the "upstream" environmental effects that a product generates at the stages of production and processing in another country.[1]

Finally, the impact of eco-labelling on developing-country exports does not yet appear to be very significant as only very few products of export interest to developing countries are currently covered (e.g. paper and paper products).

[1] *So far "upstream" effects have received little attention in eco-labelling programmes as they have not been based on a true "cradle-to-grave" approach.*

However, the possibility of introducing eco-labelling schemes covering products of primary export interest to developing countries, such as textiles, clothing and footwear, is now being studied by the EC. Proposals have also been made concerning eco-labelling for tropical timber.

Use of Trade Measures for Environmental Purposes

Given that entrepreneurs may perceive themselves at an unfair cost disadvantage and that environmentalists may fear that process standards will not be raised because of negative impacts on international competitiveness, both groups may pressure governments into imposing countervailing duties and/or other trade restrictions on countries with lower standards. Also, the concerns of consumers in one country about local environmental conditions in another country may lead to pressure to impose trade measures with a view to influencing the environmental policies of the other country.

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CALENDAR OF UNCTAD TECHNICAL COOPERATION TRAINING ACTIVITIES

Subject	*Date*	*Location*	*Type of activity*
TRAINFORTRADE	November	San José (Costa Rica) and San Salvador	National seminars: Commodity trading and futures markets
	8-12 November	Kuala Lumpur (Malaysia)	Regional seminar on trade and environment
	22-26 "	Geneva	Seminar on trade policies
	6-10 December	Praia (Cape Verde)	National seminar
	8-17 "	Rome (Italy)	Seminar on trade with EC
Generalized System of Preferences (GSP)	November	Tirana (Albania)	National seminar
	14-22 December	Bangkok (Thailand)	Regional seminar
Technology	November	New Delhi (India)	Regional workshop
Commodities	29 Nov.-3 Dec.	Nairobi (Kenya)	Regional workshop on coffee export marketing
	January 1994	Jakarta (Indonesia)	Regional workshop on commodity exchanges
Trade Programmes	January 1994	New Delhi (India)	Regional seminar on trade and environment
Debt Management	November	Dhaka (Bangladesh)	National DMFAS seminar

This calendar appears periodically in the "UNCTAD Bulletin". Persons interested in obtaining further information are invited to contact the Chief, Technical Cooperation Policy and Coordination, UNCTAD, Palais des Nations, 1211 Geneva 10, Switzerland. Tel.: (4122) 907 57 36; Fax (4122) 907 00 43.

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The question might then be posed of when the use of trade measures might be legitimate. One possible case arises when a country wishes to protect its environment against damage from the consumption and disposal of domestically-produced or imported products. In this context it should be borne in mind that denying entry to non-complying imports is a legal trade measure under existing GATT rules so long as the principles of non-discrimination and national treatment are observed. Countries are not allowed, however, to establish standards for how products should be processed or manufactured and then prohibit imports of "like products" not meeting these standards. Under the GATT Agreement on Technical Barriers to Trade, moreover, other Contracting Parties can challenge standards and regulations if they constitute barriers to trade, unless they are based on scientific evidence.

Another possible case could occur in the context of International Environmental Agreements (IEAs) addressing transborder and global environmental problems through international cooperation. When IEAs are negotiated by a sufficiently large number of countries, for example under the auspices of the United Nations, multilaterally agreed trade measures against non-participants might be permissible if they are necessary to achieve the internationally agreed environmental objectives. However, positive measures are to be preferred over sanctions, as cooperation is more likely to generate economic and environmental gains and an overall improvement in welfare.

REVIEWS

SMALL AND MEDIUM-SIZED TRANSNATIONAL CORPORATIONS: ROLE, IMPACT AND POLICY IMPLICATIONS
United Nations publication
Sales No.E.93.II.A.15, US$ 35

Small and medium-sized enterprises (SMEs) have made an important contribution to the large increase in foreign direct investment (FDI) recorded since the mid-1980s. This UNCTAD study suggests that FDI is not only an integral part of corporate growth strategies but also that SMEs can be an alternative to large transnational corporations in the transfer of productive resources to developing countries. It points out that the technology transfer of SMEs is subtly different in that it consists of small scale, tacit and even personalized types of technology. SMEs, moreover, are more likely to transfer labour-intensive techniques than large corporations. The study also outlies policy options for both home developed and host developing countries *vis-à-vis* SMEs.

The study is based on a survey of hundreds of SMEs in the manufacturing and services sectors of eighteen industrial countries. It was made possible by a financial contribution from the Government of Japan.

UNCTAD COMMODITY YEARBOOK 1993
United Nations publication
Sale No. E/F.93.11.D.8, US$ 70

This tenth edition of UNCTAD's main statistical publication on commodities presents comprehensive statistical data for production, trade and consumption of selected agricultural primary commodities and minerals, ores and metals up to 1991. Apart from commodity-specific tables, it includes extensive summary tables on commodity dependence and trade values.

The *Yearbook* is divided into four parts. Part One consists of summary tables giving trade values and shares for primary commodities in the aggregate and for non-agricultural commodities separately. The principal exporters and importers of selected commodities are identified. Part Two contains statistics on selected agricultural and raw materials. Part Three presents data on selected minerals, ores and metals. Instability indices and trends in monthly market prices for selected primary commodities are contained in the Annex.

The *Yearbook* is designed primarily to provide background information for use in international commodity discussions and negotiations carried out in UNCTAD, but it also represents a useful tool for researchers with an interest in commodity policy issues.

MOBILIZATION AND ALLOCATION OF DOMESTIC SAVINGS: A CASE STUDY ON BHUTAN
Machiko Nissanke and Priya Basu
UNCTAD Discussion Paper – No. 63, July 1993

This *Discussion Paper* presents the main findings of an UNCTAD mission to Bhutan in 1992 which assessed the performance of, and potential for, domestic resource mobilization and evaluated the efficacy of Bhutan's financial system in mobilizing savings and channelling them into investment. The *Paper* examines aggregate savings and

investment trends, the Government finance profile, the saving/financing pattern of the enterprise and household sectors and the main operational constraints facing the financial system. It offers a critical assessment of the main problems and challenges facing the Government and the financial system. It concludes that despite the hostile physical conditions, the formal institutions have achieved an impressive growth in deposit mobilization in the 1980s with an improved maturity structure. However, loans lag considerably behind, resulting in a large accumulation of liquidity reserves. Extensive efforts are considered necessary to develop the capacity of financial institutions in effective intermediation, so that growing financial savings can be deployed in viable investment projects.

MOBILIZATION AND ALLOCATION OF DOMESTIC SAVINGS: A CASE STUDY ON NEPAL

Machiko Nissanke and Priya Basu
UNCTAD Discussion Paper-No. 64, July 1993

Similar in scope to the study on Bhutan, this *Discussion Paper* concludes that the financial reforms in Nepal, carried out under the structural adjustment programme, succeeded in cleaning the balance sheets of financial institutions and in prompting increased savings in the form of interest-bearing financial assets. It is not clear, however, whether higher levels of financial savings have translated into increased productive investments. The *Paper* argues that further progress in savings mobilization has been held back due to the limited intermediation capacity of banking institutions and the lack of suitable investment opportunities for non-banking financial institutions.

LIBERALIZATION AND ECONOMIC PERFORMANCE IN TURKEY

Ercan Uygur
UNCTAD Discussion Paper-No. 65, August 1993

This *Discussion Paper* assesses whether the liberalization programme launched in Turkey in 1980 led to improvements in the real economy. It first briefly looks at the liberalization-stabilization programme of the 1980s, with an emphasis on the financial policies adopted. The McKinnon-Shaw hypothesis, which stands out as the leading liberalization model, is explained. The criticisms and the testable implications of the hypothesis are also set out. In the way of testing for the predictions of the model the author examines what effect, if any, financial liberalization had on private savings and investment rates, on productivity and on the overall growth performance of the Turkish economy. The empirical findings suggest that although some predictions of the pro-liberalization arguments are borne out by the Turkish experience, some important ones are not.

MAASTRICHT AND FISCAL RETRENCHMENT IN EUROPE

Yilmaz Akyuz
UNCTAD Discussion Paper-No. 66, August 1993

This *Discussion Paper* examines the feasibility and consequences of the implementation of the fiscal convergence rules of the Maastricht Treaty for European Monetary Union. It argues that for a number of countries it would be very difficult or even impossible to reduce deficits and debt to the Maastricht target levels through cuts in spending and increases in taxes on incomes and expenditures, and attempts to follow the Maastricht recipe of coordinated fiscal contraction could drag the continent into depression. Since the main source of deficits is the interest bill, and since high interest rates are at the root of debt explosion, monetary relaxation is essential. However, this will not be sufficient to deal with the debt overhang in some countries such as Italy and Belgium. The author proposes a one-time capital levy to reduce the stock of debt alongside one-off spending increases to sustain private incomes.

THE STATE IN ECONOMIC ACTIVITY: PROBLEMS OF ECONOMIC POLICY-MAKING

Cem Somel
UNCTAD Discussion Paper-No. 67, August 1993

The author of this *Discussion Paper* attempts to utilize social theory and empirical evidence to study problems of policy-making in developing countries in a systematic manner. The *Paper* first describes the State's economic objectives, with special reference to the development objective, and summarizes the imperative requisites of policies elaborated by Tinbergen. The difficulties of policy implementation in developing countries, including problems related to bureaucracy and clientelism, are examined. The *Paper* next studies some specific problems of policy-making in diverse areas of government spending and revenue collection, highlighting the trade-offs in terms of objectives. It then examines the problems associated with import substitution, export promotion and state enterprises. Finally, it identifies political and administrative reforms that are urgently needed to enhance the policy-making and implementation capability in most developing countries.

NOTES

CONFERENCE ON TRANSNATIONAL CORPORATIONS AND CHINA

About forty of the world's leading transnational corporations and Chinese Government officials took part in an international conference on foreign direct investment (FDI) in Beijing from 9-11 September. The event was co-sponsored by the Chinese Ministry of Foreign Trade and Economic Cooperation, UNCTAD's Programme on Transnational Corporations and the University of International Business and Economics, Beijing. The conference was opened by Mr. Li Lanqing, Deputy Prime Minister and Mr. Kenneth K.S. Dadzie, Secretary-General of UNCTAD.

The conference made concrete suggestions to further improve the overall environment and regulatory framework for FDI in China. They relate to market access, holding companies, labour mobility, the approval process, transparency, intellectual property rights and foreign exchange availability and the exchange rate system. The report of the conference is being forwarded to the State Council prior to a formal decision being taken on eventual revisions of the regulatory regime governing FDI in China.

With FDI of $11 billion in 1992 (about 40 per cent up on 1991) and $9.4 billion in the first half of 1993 (a 180 per cent year-to-year increase), China is now the single largest host country for FDI in the developing world and among the leading host countries world-wide.

EXPERTS MAKE PROPOSALS TO PROMOTE COMMODITY FUTURES CONTRACTS

Experts from both the public and private sectors, including commodity producers and consumers, processors, dealers, brokers and exchange officials concluded a three-day meeting in UNCTAD on 15 September by making proposals for promoting the use of risk management instruments in commodity trading. At an earlier meeting in May they had examined the technical and regulatory problems encountered in using commodity futures contracts as an instrument to reduce exposure to commodity price volatility *(see "UNCTAD Bulletin", March-April 1993)*.

The proposals aim at encouraging participation in, and use of, commodity exchanges by both buyers and sellers. The experts recommended that their proposals be discussed with governments, regulatory bodies, futures industry associations, representatives of buyers and sellers, accountancy and creditor representatives as well as educational institutions. The objective is to stimulate appropriate action. Progress made in this regard would then be assessed at a further meeting in UNCTAD.

Since one of the obstacles to a more widespread use of commodity futures contracts, especially by developing countries and economies in transition, is an insufficient understanding of their functions, the experts identified several areas in which training and advisory services needed to be strengthened, including those provided by UNCTAD.

CONTAINER TERMINAL MANAGEMENT SEMINAR IN ANTWERP

Sixteen officials from both the public and private sectors of nine developing countries took part in a three-week seminar in September, in Antwerp, on container terminal management. The seminar was organized by UNCTAD, as part of its human resources development programme, in cooperation with Antwerp Port Engineering and Consulting (APEC) and with the financial support of the Belgian Government. The participants received training in the development, management and operation of specialized and multipurpose terminals handling containers and unitized traffic, using material developed for UNCTAD's Improving Port Performance and TRAINMAR programmes.

WORKSHOP ON TECHNOLOGY TRANSFER IN THE ASIA-PACIFIC REGION

In cooperation with governmental authorities and professional associations in Thailand, the UNCTAD Technology Programme organized a workshop on Innovation and Technology Transfer in Bangkok from 21-24 September. This was the fourth in a series of such workshops whose objective is to help least developed and island developing countries develop their technological base through improved selection and acquisition of foreign technology. Participants included senior officials from Bhutan, Fiji, Lao People's Democratic Republic, Maldives, Myanmar and Nepal.

The workshop focused on policies and instruments for the creation, transfer, adaptation and absorption of technology. It carried out a comparative analysis of national policies and legislation in the Asia-Pacific region.

TRADE AND DEVELOPMENT BOARD CONCLUDES AUTUMN SESSION

The UNCTAD Trade and Development Board ended its autumn session on 1 October after endorsing conclusions on a broad range of issues including interdependence, debt, trade and

environment, regional integration groupings, the Uruguay Round, land-locked developing countries and assistance to the Palestinian people.

The Board's discussions on growth dynamics in the context of global interdependence addressed issues covered in the *Trade and Development Report*, which itself received much attention. While views remained divided on most of these issues, a significant consensus emerged that the conceptual framework, as well as the design and implementation, of structural adjustment programmes in Africa needed improvement. The Board also agreed, with regard to growth dynamics in developing countries and countries in transition, that the lessons of experience were complex and that it was important for governments to be more pragmatic. This suggests some unease with the effectiveness of the standard policy prescriptions of the multilateral financial institutions.

On trade and environment two important advances were recorded. First, the Board considered UNCTAD to be at the forefront of research on this issue and called for further interaction with the OECD and other organizations. The secretariat report was particularly commended. Second, the Board reached a consensus on an issue of major concern for developing countries, the need for eco-labelling programmes to take into account the trade and substainable development interests of producing countries.

FORTHCOMING UNCTAD MEETINGS

- ***November***

  8-10
  Intergovernmental Group of Experts on Tungsten, second session

  15-19
  Ad Hoc Working Group on Trade Efficiency, second session

  22-26
  Ad Hoc Working Group on Expansion of Trading Opportunities for Developing Countries, second session

  29-3 December
  Ad Hoc Working Group on Comparative Experiences with Privatization, third session

- ***December***

  13-17
  Ad Hoc Working Group on the Interrelationship between Investment and Transfer of Technology, second session

PUBLICATIONS

- UNCTAD's Contribution within its Mandate to Sustainable Development: Trade and Environment – Trends in the Field of Trade and Environment in the Framework of International Cooperation (TD/B/40(1))
- UNCTAD's Assistance to the Palestinian People – Developments in the Economy of the Occupied Palestinian Territory (TD/B/40(1)/3)
- Review of the Current Situation and Outlook for Iron Ore, 1993 (TD/B/CN.1/IRON ORE/3)
- Bibliography of Relevant Studies on Iron Ore – Annotated Bibliography on Iron Ore – 1993 (TD/B/CN.1/IRON ORE/4)
- International Cocoa Agreement, 1993 (TD/COCOA.6/12)
- Strategic Planning for Port Authorities (UNCTAD/SHIP/434)
- Port Organization and Management (TD/B/CN.4/GE.1/2)
- Contribution to the Improvement of the Functioning of Commodity Markets – Analysis of Ways of Improving the Efficiency and Use of Existing Mechanisms for the Management of Risk Arising from Commodity Price Fluctuations – (TD/B/CN.1/10)
- Fostering Competitive Services Sectors – A Comparative Analysis of Services Sectors in Developing Countries (TD/B/CN.4/23)
- Progress Report by the Secretariat on the Implementation of the Work Programme of the Standing Committee on Developing Services Sectors (TD/B/CN.4/25)
- Database on measures affecting service trade (TD/B/CN.4/26)
- Consideration of issues arising from the Work Programme of the Ad Working Group on Expansion of Trading Opportunities for Developing Countries – Market Opportunities, environmental measures, structural adjustment policies, RBPs) (TD/B/WG.4/4)
- Export promotion and marketing – Note by the International Trade Centre UNCTAD/GATT (TD/B/WG.4/Misc.11)
- Generalized System of Preferences – Replies received from preference-giving countries: the European Economic Community (EEC) (TD/B/C.5/PREF.5/6)
- Technical Assistance on Restrictive Business Practices (TD/B/RBP/97)
- In Depth Consideration of: a) Competition and the Regulation of Privatized Monopolies b) Social Impact and Socially Related Support Measures (TD/B/WG.3/11)
- Analysis of National Experiences in Horizontal and Vertical Diversification, including the Possibilities for Crop Substitution (TD/B/CN.1/14)
- Situation and Prospects for Commodities (TD/B/CN.1/11)

Reprint Series

- Import Shortages and the Inflationary Impact of Devaluation in Developing Countries, by Mehdi Shafaeddin (UNCTAD/OSG/RS.2) (English only)

UNCTAD documents are available for reference at all United Nations information Centres and at depository libraries for United Nations publications. The yearly subscription for all mimeographed UNCTAD documents is US$ 350 including postage. Requests for such subscriptions as well as orders for individual sales publications should be addressed to: United Nations Sales Section, Palais des Nations, 1211 Geneva 10, Switzerland.

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